

# Anthony Tse on Galaxy Resources' \$280 million POSCO transaction

<https://investorintel.com/wp-content/uploads/2019/03/Galaxy-AUDIO-EDITED.mp3>

“The interesting thing about that transaction was, we have a substantially large tenement holding to the south of that part of the salar and we managed to structure the transaction where although we were selling a reasonable level of our resource it actually did not have any impact at all on our reserves or the project. The 1.1 million tons of reserves for the Sal De Vida Project actually remained 100% intact. We actually still retain a little over 4 million tons of lithium carbonate equivalent. Essentially, we were able to sell a certain portion of our tenement package and obviously for significant consideration, \$280 Million U.S. dollars gross.” States Anthony Tse, Managing Director & Chief Executive Officer of Galaxy Resources Limited (ASX: GXY), in an interview with InvestorIntel’s Tracy Weslosky.

**Tracy Weslosky:** We have just all been watching you. Your settlement with the POSCO deal – you will be receiving \$271.6 million. Can you tell us more about the highlights of this please?

**Anthony Tse:** This was a deal that we had announced early on in the year. In 2018 we signed definitive binding agreements. I think it was at the end of August 2018. It took basically the remainder of the year to go through the necessary administrative closing of the transaction in Argentina. The transaction basically involved us selling just over 40 tenements in the northern basin of the Salar De Hombre Muerte where our Sal De Vida Project is located bordering the

Catamarca and South Province. Those 40 plus tenements involved a tentative resource of about 2 ½ million tons of lithium carbonate equivalent all measured and indicated of approximately 1.6 million. The interesting thing about that transaction was, we have a substantially large tenement holding to the south of that part of the salar and we managed to structure the transaction where although we were selling a reasonable level of our resource it actually did not have any impact at all on our reserves or the project. The 1.1 million tons of reserves for the Sal De Vida Project actually remained 100% intact. We actually still retain a little over 4 million tons of lithium carbonate equivalent. Essentially, we were able to sell a certain portion of our tenement package and obviously for significant consideration, \$280 Million U.S. dollars gross. That will allow us to continue to develop the project. We have not actually technically sold the project. We have just sold a little bit of what I would call resource upside. Essentially at 1.1 million tons of reserves we already have a very long-life project. It is a 40-year project life project for us as it is today. Importantly the proceeds of the transaction will actually be applied for developing the Sal De Vida Project going forward.

**Tracy Weslosky:** I would love to thank you for knowing that our analyst is so excited about knowing the Sal De Vida Project. He asked me to find out what you plan on doing next. I think you have just answered that for us. Let me just make sure I have got this correct. You plan on using some of POSCO's settlement proceeds towards the development of this property.

**Anthony Tse:** That is correct.

**Tracy Weslosky:** Okay. Also, I would like to talk to you a little bit more about your Mt. Cattlin Project. Your quarterly results you discuss sales spodumene concentrate. Talk to us a little bit more about this.

**Anthony Tse:** Sure. We are about to issue our annual results

shortly, this week. If you refer back to the quarterly results for the December quarter and obviously also referring—aggregating the previous quarter’s results you would see that for the whole year of 2018 we did in the range of just under 160,000 tons of lithium concentrate. That lithium concentrate or the spodumene that we actually produce we ship to our customers in China who are predominately lithium converter facilities.

To access the complete interview, [click here](#)

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## **Cashed up from the POSCO sale – what’s next for Galaxy Resources?**

Lithium is 3rd element in the periodic table and the lightest solid element. It is a small soft silver grey metal perfectly suited for use as a super light electrolyte (conducts electrical current). The lithium-ion battery sector is one of the largest consumers of lithium, and it is growing very fast spurred on by the electric vehicle (EV) boom.

Lithium-ion batteries have superior energy density and are more efficient and environmentally friendly than traditional lead acid batteries. Originally used in computing and mobile communication devices, lithium-ion batteries are being increasingly used to power electric vehicles (bikes, cars, buses, trucks, boats, ships, and soon trains and planes), and mass energy storage devices to help power our homes and

cities.

Galaxy Resources Limited (ASX: GXY) engages in the production of lithium with three 100% owned global projects diversified across spodumene and brine, and across 3 continents.

### **Sal de Vida (SDV) (Argentina) – Development stage**

Sal de Vida is one of the world's largest and highest quality undeveloped lithium brine deposits with significant expansion potential covering more than 385 square km. Galaxy Resources recently sold their northern SDV tenements to POSCO but retained their southern tenements upon which their current resource and Feasibility Study is based on. This means the negative impact from selling the north is minimal, and the positive is US\$280 million.



### **Mt Cattlin Spodumene Mine (Western Australia) – Production stage**

Galaxy Resources owns the Mt Cattlin spodumene Mine, located in Western Australia. Galaxy is currently mining pegmatite ore at Mt Cattlin and processes on site to produce a spodumene

concentrate and a tantalum by-product. At full capacity, ore can be processed at a rate of 1.6 million tonnes per annum (tpa) with lithium oxide concentrate production of 180,000 tpa. Galaxy Resources holds a series of tenements surrounding and including the mining lease M74/244, which contains the majority of the spodumene resource identified to date and which hosts the Mt Cattlin mine.



Galaxy Resources' Mt Cattlin Mine in Western Australia

### **James Bay Spodumene Project (Canada) – Development stage**

The James Bay lithium pegmatite Project in Quebec Canada contains Indicated Resources of 40.3 million tonnes grading at 1.4% Li<sub>2</sub>O. The James Bay deposit occurs at surface and resource modelling indicates that the resource is amenable to open pit extraction. There is excellent potential to increase the resources through additional delineation of the pegmatite dykes along strike and at depth and potential to increase grade through infill drilling.

### **Recent big news for Galaxy as POSCO sale successfully completes**

In what started in August of 2018, a deal to buy Galaxy's northern SDV tenements for US\$280 million by South Korean steelmaker POSCO has finally settled.

Galaxy Resources stated: "(Galaxy) is pleased to advise that final settlement of the sale of a package of tenements located on the northern portion of the Salar del Hombre Muerto to POSCO has now been completed....Galaxy will now receive

US\$271.6 million (after US\$8.4 million in withholding taxes was paid in November 2018) as follows: US\$257 million consideration held in escrow plus interest accrued will be released by the escrow agent to Galaxy by Tuesday 26 February 2019 and US\$14.6 million will be paid by POSCO directly to Galaxy by Friday 1 March 2019, now that registration of the usufruct transfers has also been completed.”

The above sale proceeds will combine with Galaxy’s existing cash of ~US\$ 41 million, less tax to form a very nice cash pile heading towards US\$300 million.

**What will Galaxy do with their new large cash hoard of ~US\$250 million?**

My best hypothesis is the following:

1. ~US\$150 million towards the development of SDV, in combination with a project partner.
2. ~US\$100 million towards a lithium spodumene conversion plant either in Western Australia or China. A JV with Neometals (ASX: NMT) perhaps?
3. Any remaining funds to purchase nearby lithium tenements/projects to bolster the mine life of Mt Cattlin, and to advance James Bay.

My outlier idea is Galaxy may look to diversify away from lithium into other EV metals.

Please note the above is what I think may happen, and purely my own speculation.

What is for sure is that Galaxy Resources will continue to make profits from their Mt Cattlin lithium spodumene mine, focus to advance Sal de Vida to production, and steadily advance James Bay to FS stage completion for now. This makes Galaxy one of the very best pure play lithium miners globally, and definitely on investors radar with plenty of near term catalysts likely in 2019.

Australian based Galaxy Resources Limited has a market cap of A\$910 million, noting they will shortly have ~A\$400 million in cash, and no debt.

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## **Will 2019 be the year of mining mergers and acquisitions?**

At the beginning of every new year there is always speculation on what the year is going to bring. Given the current low valuations across the mining sector, will 2019 be the year of mining mergers and acquisitions (M&As)?

### **Newmont buys Goldcorp**

Even though we are just one month into 2019 the biggest news for January has to be Newmont Mining Corp. buying rival Goldcorp Inc. in a deal valued at \$10 billion. This will create the world's largest gold miner and cements a return of M&A to the gold industry.

### **Barrick Gold buys Randgold Resources**

The biggest deal in the gold mining industry's history comes just three months after Barrick Gold Corp's move to buy Randgold Resources Ltd. in a \$5.4 billion transaction.

These two huge gold deals have the potential to spark investor interest after the industry lost favor following recent years of lackluster gold prices, bad investments, poor deals, and in some cases poor management. Are gold mining companies now turning to M&A as a way to kick-start growth and secure mine reserves after a decade of cutting back on exploration

spending? It's not just huge gold mines but even the junior miners that could make 2019 the year of M&A.

### **Smaller mining M&A deals will be very common in 2019**

The following companies are also already a part of the 2019 M&A trend.

CBLT Inc. (TSXV: CBLT) announced on January 21, 2019 it was the winning bidder for a portfolio of mining assets. The assets are all located in Canada and all have been explored to some degree. One of the assets, Northshore Gold is in the world famous Hemlo Gold Camp that boasts an indicated resource of 391,000 ounces gold in 12,360,000 tonnes at a grade of 0.99 g/t gold. CBLT has been advised by GTA Resources and Mining Inc. (TSXV: GTA) that GTA has not been able to reach acceptable terms with any other bidder for GTA's portfolio of mining assets and as a result GTA intends to close on the CBLT agreement.

### **It's just not gold that's got M&A fever – How about lithium, cobalt, and nickel?**

Just last month Tianqi Lithium bought into SQM outlaying US\$4.1 billion, while Albemarle (ALB) paid US\$1.15 billion for half of Mineral Resources (ASX: MIN) Wodonga Lithium Mine. Prior to that POSCO paid US\$280 million for Galaxy Resources Limited (ASX:GXY) northern lithium tenements in Sale De Vida Argentina. In yet another recent lithium deal partners Ganfeng Lithium and Mineral Resources agreed to buy out Neometals Ltd. (ASX:NMT) share of the Mt Marion Lithium Mine. Also in January PlusPetrol announced it has entered into a definitive arranged agreement to acquire LSC Lithium. PlusPetrol is a private, independent, international company in the exploration and production of oil and gas. Here is another fossil fuel company looking to join the green energy trend. Bangchak Petroleum was another when they bought into Lithium Americas (LAC) in 2017.

In January Cobalt 27 announced a friendly acquisition of

Highlands Pacific to create a leading high-growth, diversified battery-metals streaming company. The acquisition of Highlands will allow Cobalt 27 to gain a direct interest in the Ramu nickel-cobalt mine and materially increase its attributable exposure to the mine's nickel production from 27.5% to 100% and cobalt production from 55% to 100%. Under the terms of the Scheme, Cobalt 27 will acquire all of the issued ordinary shares of Highlands that it does not already own.

Although only one month has passed in 2019, it has been a rapid fire month for mining M&A's. Who might be next? Certainly there are a number of very cheap junior miners, and the mining sector is ripe for consolidation. A few names come to mind as being very well valued such as Eastmain Resources Inc. (TSX:ER | OTCQX:EANRF), Getchell Gold Corp. (CSE: GTCH), and most of the lithium/cobalt/nickel/copper juniors with a good size and grade resource, and safe location.

Bigger miners know it is often easier to purchase, acquire, or merge with existing projects to build a portfolio as it is much cheaper and quicker, especially if timed correctly. We have already seen two massive deals done recently in the gold industry, so it looks a good bet we will see a lot more M&A action in 2019.

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## **A pure play lithium miner with cash and zero debt attracts Galaxy interest.**

The salt flats of Chile, Bolivia and Argentina hold the bulk of the world's supply of lithium. These stunningly beautiful salt flats form a region that has become known as the Lithium

Triangle. The demand for lithium is expected to at least triple by 2025.

Australian based Galaxy Resources Limited (ASX: GXY) engages in the production of lithium concentrate, with their flagship project Sal de Vida (Salt of Life) located within the Lithium Triangle, in Argentina. The Company also holds 100% interest in both the Mt Cattlin lithium spodumene mine in Western Australia, and the James Bay lithium spodumene project in Quebec, Canada.



Sal De Vida – “Salt of life”

### **Sal de Vida**

Sal de Vida (SDV) is one of the world’s largest and highest quality undeveloped lithium brine deposits with significant expansion potential. Galaxy controls 100% of the brine mineral rights covering more than 385 square km.

The Sal de Vida brines average about 780 mg/L lithium which is good. They also have potassium concentrations averaging around 0.87 mg/L potassium, with low sulfate and magnesium which is also advantageous (high magnesium content can increase the production costs of lithium carbonate).

In May 2018, an updated Feasibility Study (FS) was released

supporting a low cost, long life lithium and potash operation. The updated FS estimated a post tax net present value (NPV) of US\$1.48 Billion, with a post-tax IRR of 26.9%, over a 40 year mine life. Average annual revenue was estimated at US\$360M and EBITDA at US\$270M. CapEx was estimated at US\$474M and ongoing expenses at US\$3,144/t LCE. Clearly SDV economics are impressive and it looks like it will be a very profitable project. The planned development can use modular designs giving flexibility to add units to upscale the capacity of 25,000 tonnes per year of lithium carbonate and 95,000 tonnes of potassium chloride.

### **Galaxy's Q3 activities report**

As of the 30th of September 2018 Galaxy had US\$54.7M in cash and liquid securities and zero debt. In addition, a US\$13.3M payment for a shipment completed in late September was received in early October.

During the past quarter, Galaxy entered into a binding agreement with POSCO to sell a package of tenements located on the northern area of the Salar del Hombre Muerto in Argentina, for a cash consideration of US\$280M. In early October, POSCO transferred US\$257M into the designated transaction escrow account at HSBC. These funds will be released to Galaxy upon receipt of the tenement transfer deeds which is expected to be released by the end of October 2018. Note that the sale of the northern tenements does not impact Galaxy's NPV on Sal de Vida as they were not included.

Adding all the cash Galaxy will soon be at about US\$348M, which goes a long way towards the US\$474M to start Sal De Vida.

### **Mt Cattlin Spodumene Mine update**

During Q3, the Galaxy commenced a 30,000 m drill program in support of exploration, resource and reserve development at Mt Cattlin. As the dry season in Western Australia approaches,

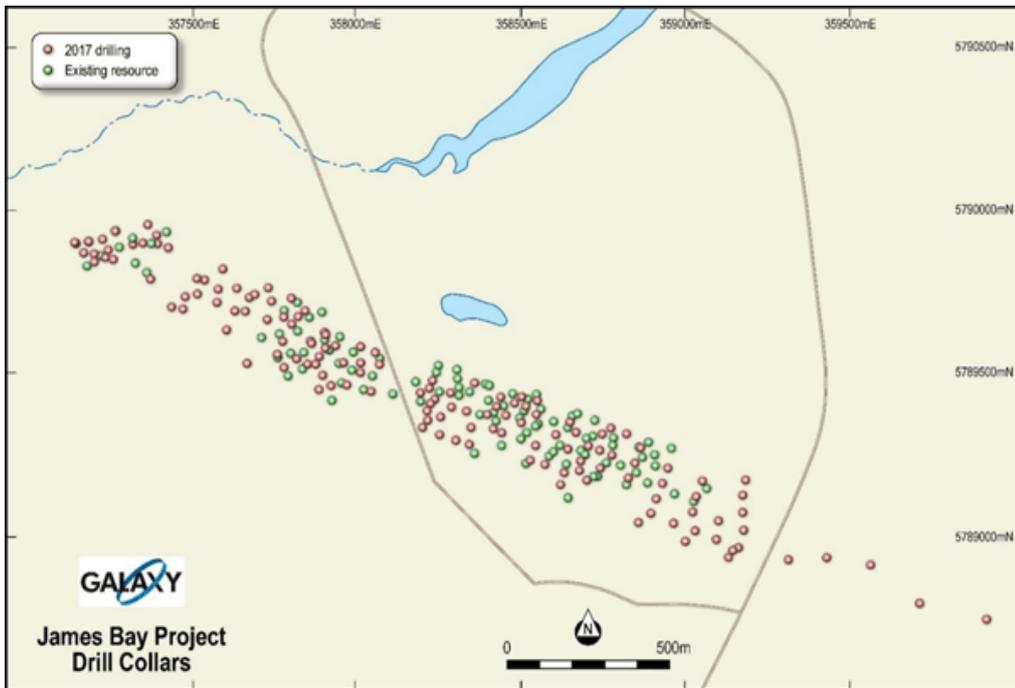
exploration activities will include a further round of ground penetrating radar (GPR) west of Mt Cattlin and completion of ongoing geochemical sampling programs confirming earlier GPR work. An updated resource and reserve estimate is expected early in Q1, 2019.



Galaxy Resources' Mt Cattlin lithium mine

### **James Bay Spodumene Project update**

The James Bay lithium pegmatite project contains indicated resources of 40.3 million tonnes grading at 1.4% Li<sub>2</sub>O. The deposit occurs at surface and resource modeling indicates it is amenable to open pit extraction. There is excellent potential to increase the resources through additional delineation of the pegmatite dykes along strike and at depth and potential to increase grade through infill drilling. Galaxy is steadily progressing the project towards a Feasibility Study.



If you look from a distance it spells. "Invest in Galaxy"

Galaxy Resources continue to give investors a lower risk, high reward, pure play lithium miner with an achievable pathway ahead which should significantly reward long term investors. Cash flow and reserves are excellent, and several near term catalysts exist. The big one would be a project partner or funding decision on Sal De Vida. Put simply, Galaxy is a great buy.

## Lithium investors need look no further than Galaxy Resources

Galaxy Resources Limited (ASX: GXY) is an Australian lithium miner with three lithium projects globally. Unlike their much larger peers, they are a pure play lithium miner. Galaxy

recently agreed to sell their northern Sal De Vida tenements to POSCO for US\$280m, thereby boosting Galaxy's balance sheet and de-risking the Company once the sale completes in Q3, 2018.

### **Mt Cattlin lithium spodumene mine – Western Australia**

The Mt Cattlin mine has ramped up lithium spodumene production to reach 47,901 tonnes in Q2 2018, at an average cash margin of US\$534/t. On a yearly basis that works out to be ~US\$100m just from Mt Cattlin.

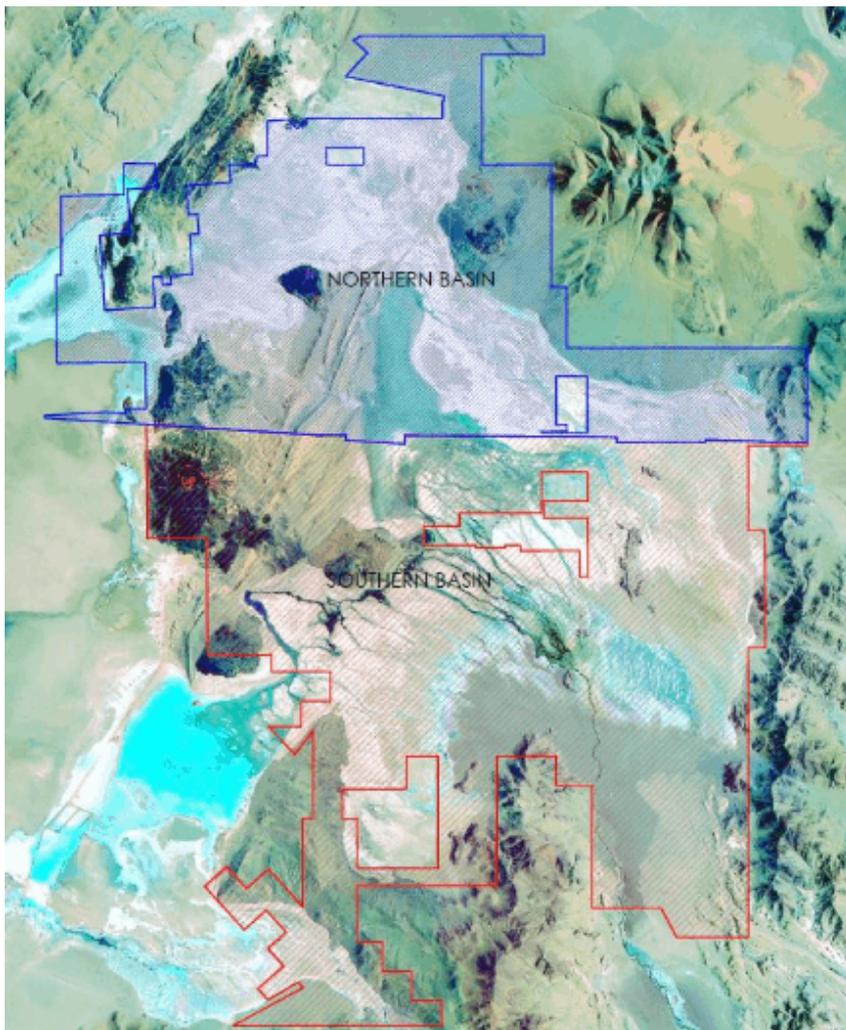


Mt Cattlin

### **Sal De Vida (SDV) lithium brine project – Argentina**

After the sale of the northern tenements of Sal De Vida to POSCO the total resource estimate for Galaxy's retained SDV falls to 4.09 million tonnes LCE (at a grade of 780mg/L), as Galaxy retains the southern tenements. The reserves estimate of 1.14 million tonnes also remains unchanged. The key point here is that Galaxy still has a very large high quality resource. The latest Feasibility Study results (post tax NPV8% of US\$1.48 billion) is therefore unchanged as it did not include the northern tenements.

On July 9 the Company announced (regarding the POSCO sale): “The Company advises that the agreed timetable for completion of this transaction continues to be met, with notice received from POSCO on 6 July that their investment review had been completed satisfactorily. The transaction remains conditional on execution of definitive documentation and final POSCO Board approval which is still expected during the third quarter of 2018.”



SDV tenements map – Blue sold to POSCO, and red retained by Galaxy

### **James Bay spodumene mine – Ontario, Canada**

Galaxy Resources continues to slowly advance their final project at James Bay. The Feasibility Study is in progress as is further metallurgical test work and ongoing engagement with

the local Cree community.

## **Valuation**

As of June 30, 2018 Galaxy had US\$84.8 million in cash, and no debt. Current market cap is AUD 1.25b and enterprise value is estimated to fall to AUD 860m or lower (after the POSCO sale completes). 2018 PE is 10.4. Analyst's consensus target price is AU\$4.04.

With the POSCO sale due to complete sometime in Q3 2018 Galaxy Resources should receive a significant re-rating given the fact the sale proceeds of US\$280m (plus ~US\$200m retained Mt Cattlin earnings) will be enough to allow Galaxy to self fund Sal De Vida (CapEx US\$474million). Looking ahead once Sal De Vida is up and running it is projected to earn an EBITDA of US\$270 million for a project life of 40 years (40 years x 25,000tpa). Finally James Bay could be brought on quite easily using existing retained earnings say by mid 2020's as global lithium demand requires. Once all three projects are running Galaxy Resources could be looking at combined EBITDA of ~US\$500m pa (100m + 280m + 120m). Applying a 10x multiple to this would suggest Galaxy is headed towards an Enterprise Value of ~US\$5b by the mid 2020's, which would be 5.8x higher than now.

Investors need look no further than Galaxy Resources for a lower risk, high reward, pure play lithium miner. The pathway ahead looks very achievable, and should significantly reward the long term investor looking to buy and hold until 2025 and beyond.

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# Berry's 2015 forecast calls for lithium and cobalt to have a very good year

January 16, 2015 – In a special **InvestorIntel** interview, Publisher Tracy Weslosky speaks with Chris Berry, Co-Editor of the Disruptive Discoveries Journal and Sr. Editor for **InvestorIntel** on how the resource market is officially at the bottom, and shares his forecasts for 2015.



**Tracy Weslosky:** Chris I want to start by talking to you about your forecast for 2015. If you wouldn't mind could you talk to us about what we should anticipate as investors and the resources that maybe we should focus on?

**Chris Berry:** Sure. I think that the resource space in general, particularly the metals, have hit bottom. I think that 2015 is going to be a much better year than either 2014 or 2013 or 2012 were. My specific focus is what I call the energy metals so I'm paying particular attention to this year to lithium and cobalt.

**Tracy Weslosky:** Okay, so in reading about your forecast for 2015, and I can't tell you how delighted I am to hear that we should be looking at an upcycle in the resource sector, can you tell us about the lithium and cobalt market because you specifically talked about those two energy metals maybe leading the pack this year?

**Chris Berry:** Well, lithium, to start off with that, is an

oligopoly. It's run by three or four major players. One of the reasons why I like it is because it is demand for lithium across a whole host of products. It's not just batteries, but its pharmaceuticals, for example – it's growing at well above global GDP growth rates. When you think about the commodity space right now, in particular the metals, what I'm focused on is on those metals that are growing well above global GDP because even if demand for, say lithium, falls a little bit, you're still well ahead of, say, copper or something like that. Lithium in particular is growing at about 8% per year. I think it's going to be very strong going forward on the back of the battery business.

**Tracy Weslosky:** Chris, if I want to invest in lithium, for instance, you said there's primarily three to four major players. Is there a company in particular that you're watching?

**Chris Berry:** Yeah, there are a couple that I'm interested in. You know, obviously I focus predominantly on the junior or the advanced development space. I'm really looking closely at a company called Lithium Americas right now. They have one of the largest brine projects in Argentina, but what makes them special and differentiates them from the pack is a relationship that they have with POSCO. For those of you watching who don't know, POSCO is one of the largest steel producers in the world. They've made huge into lithium extraction in the lithium extraction business. They have a process that allows them to produce lithium from brine at a fraction of the time and a fraction of the cost traditional lithium brine methods right now. It's very potentially interesting for Lithium Americas going forward.

**Tracy Weslosky:** Alright. Our audience has a very good understanding of the lithium markets so they're going to be very excited about this particular forecast for 2015. But, cobalt, would you mind giving us a little bit of an overview about cobalt and perhaps select a cobalt company that you're

following presently?

**Chris Berry:** Sure. Cobalt is another one of these small I would argue misunderstood or not well understood markets. The global cobalt market is about 100,000 tons right now...to hear the rest of the interview, [click here](#)

**Message from the Publisher:** Chris Berry will be speaking at 9AM PST on Sunday, January 18th at the Cambridge House Show. Email us at [info@InvestorIntel.com](mailto:info@InvestorIntel.com) for more details.